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THE PRESIDENT'S PUZZLE: THE SURPLUS.

WHAT a magnificent example the Republic was setting to the nations only three months ago! How changed all is to-day.

Her enemies were grievously disappointed when she proved that she could and would fight in the defense of the Union. That fact having been settled, their hope and prediction then was that the vast armies that had been created would remain a menace to the civil power; that danger being averted, there remained for them but the consolation that she must fail to stand the supreme test of popular government. True, Democracy had fought; but, said they, it would never pay. The debts incurred in a period of enthusiasm would certainly be repudiated. The Republic set about dispelling this last aspersion, and nothing in her history has ever created such profound impression abroad as the manner in which she has from month to month reduced the vast load of debt with which she was burdened at the end of her struggle for national existence. What the capitalist of the world now thinks of "the government of the people, for the people, and by the people"—and the capitalist is the shrewdest and most calculating of men—is found in this fact, that the public debt of the United States ranks the highest in the world. From her great motherland, hitherto the first in public credit, she has wrested the golden round of sovereignty. The consols of Great Britain, perpetual in duration, rank second in the estimation of the world to the bonds of the Republic, which are redeemable in a few years. Consols of the Republic—a government of the people—similar to those of Great Britain, would rank much higher than those of the monarchy, the government of a class.

I shall never forget when a Cabinet Minister of Great Britain, of the first rank, asked me if there was not grave danger to the existence of Republican institutions when the dispute between

Tilden and Hayes arose, in regard to the Presidency. I said to him, "Have you noticed what American three per cents are this morning?" "No," he said, "What are they?" "Higher than yours," was the reply. There ensued a silence that could be felt. The American citizen, traveling abroad, as he picked up a newspaper in the café which told him that the debt of his country had been reduced during the previous month ten millions of dollars, looked around that café with the air of a man that belonged to something. He called his English, German, Italian, or French acquaintance to his side, pointed to the paper, and said, "Yes, that is how *we* do it; the country we fought for we are paying for. And we mean to keep on paying until our Republic has not a dollar of debt."

Every statesman, every financier in Europe received new light in regard to this Republic, its people and its doings, from this unique monthly bulletin. The word "American" means more, fills the breast fuller, and rolls more roundly from the tongue, since America presented to the world the spectacle of a nation wiping off its debt every month by millions. One of the hopes in which I have often indulged is that one day I should stand in Washington and see the last obligation of the Republic burned amid public rejoicings. All this was possible, probable, three months ago. What has arrested this triumphal march and relegated our country to the position of the debt-ridden governments of Europe? We have no more monthly bulletins showing payment of debt.

One would imagine that to arrest a great nation in such a glorious career there must be a lion, indeed, in the path. But there is no lion, it is a very small mouse which has done this mischief. A Secretary of the Treasury, new to his functions, expresses a doubt whether he has power to purchase bonds with the surplus revenues. That is the whole of it. He admits that he has the power to purchase bonds for the sinking fund; but he doubts whether he has the power to purchase bonds for redemption. A former Secretary of the Treasury points out to him that his power is undoubted to do both. But assuming that the present Secretary of the Treasury is correct, a word from the President, or from him, to Congress, and a bill giving explicit power would be the result in a few days and all difficulty would vanish, and the Republic would continue its declared policy of wiping out the

debt and begin again to astonish the world with its monthly bulletins.

What would the purchase of bonds involve? Only the payment of a small premium above their face, for two years, when the remainder of the two hundred and thirty millions mature and could be purchased at par. This premium would be a decreasing one from month to month, as the interval between the purchase and the right to cancel at par lessened, and it would only be paying their value. But instead of asking for this authority the Secretary of the Treasury gives away to banks, free of interest, the surplus revenues of the nation. The loss upon this operation, if continued, will not be less, if any, than that which would be incurred in the purchase of bonds above par; while the doubt and uncertainty surrounding the future action of the Secretary in regard to these loans, hanging over us like a cloud threatening to burst at any moment, will cost the country far more than any possible premium, and may involve it in commercial disaster.

We hear much of a surplus; but how can there be a surplus when we have a thousand million of dollars of debt outstanding? When we have paid off that debt, and not until then, can there be any true surplus whatever. The reduction of taxation, internal or external, will then be in order, but not till then. This country has now a golden opportunity; never was it so prosperous, never did it accumulate wealth so fast; the load of taxation which it has is as a feather weight upon its back. India has not yet completed its railway system, nor has Russia introduced improved methods of handling and transportation; the markets of the Old World for her produce, cotton, and petroleum lie open to her almost unchallenged. It is not possible for the most sanguine to anticipate a period during which the Republic will be more prosperous than the present, while it is altogether likely that in the future she is to encounter more strenuous competition. The true policy, therefore, is to continue paying off the debt as rapidly as the revenues from present taxation will allow. Never was there a situation in which the Earl of Aberdeen's advice is more appropriate than now, in regard to taxation. After his cabinet had discussed various means of solving a supposed problem, which, like the surplus, had only an imaginary existence, he asked, "why could we not let it alone?" And that proved the true solution of the difficulty; it is so now with us. Why can't we let it alone?

There are several anomalies in the present tariff ; some mistakes that need correction ; some changes in administration which experience has shown to be necessary. The bill offered by our admirable Mayor, Mr. Hewitt, in a recent Congress, ought by all means to be passed. But the nation having adjusted itself to existing conditions, the present taxation should not be disturbed so long as there is a dollar of debt to pay, and until the Republic stands before the world the only civilized government not handicapped by debt. Democracy has given the world many lessons. Its patriotic citizens should insist upon giving it another.

If, however, the present situation must be changed, if the Republic is not to go forward paying off the debt to reach the unique position pictured for her, then undoubtedly there will be a surplus to deal with. And the question is, how can a surplus be prevented ? The President proposes to avoid a surplus by reducing the duties upon imports, a policy which is certain to increase it. Into the merits of protection and free trade it is here unnecessary to enter, because all but the most violent advocates of a tariff for revenue only, agree that having built up a large manufacturing nation—the largest on earth—under a system of protection, changes must be carefully made ; so carefully made that the fabric shall not be seriously injured during transition. Such is the President's position. He says, substantially, that great care must be taken not to injure the manufactures of the country : a reduction must be made, but it must be such as manufacturers can stand ; to which they can readily adjust themselves ; something not too radical, an easy step, and then only when another step can be safely taken in this direction, it can be made. He desires no sudden shock to the present system, but soberly, judiciously, to bring it nearer and nearer to new conditions which, he thinks, would be more beneficial to the country. Well, let us see—ten per cent. reduction upon anything at one step is a pretty strong pull ; a reduction in the President's vote of a fraction of one per cent. might have rendered this article unnecessary. But suppose that a reduction in duties to the extent of ten per cent. were decided upon, and surely no one with a due regard for existing conditions would propose to do more at one time—certainly the President would not, if true to his declared wish to proceed prudently—how would this reduction affect the surplus ?

In 1886 we collected from imports one hundred and eighty-eight millions of dollars, but fifteen millions of this was from silks, five millions from foreign wines, liquors, etc., and about as much more from various articles of similar class, the duties upon which no one would think it wise to reduce. This leaves say one hundred and fifty millions of duties collected upon articles which enter into general consumption, and even this includes fifty-one millions collected from the material out of which we manufacture sugar, and which it is proposed to deal with separately. If this be deducted, then we have left one hundred millions of manufactured articles upon which a general tariff bill could act.

A reduction which averaged ten per cent. would reduce the revenue then ten millions of dollars, and if sugar be embraced in the same bill, fifteen millions—upon an equal amount of foreign articles imported; but what about the increased amount of foreign articles which the lower duties would enable the foreigner to substitute for articles which American manufacturers had hitherto been able to supply owing to the higher duties upon the foreign? Every one knows that reduced duties mean greater importations. It is to give the foreigner a better position in our markets that duties upon his products are lowered.

The first year's revenues from importations under a ten per cent. reduction would be greater in amount than before. Make the reduction average twenty per cent., and so complete will be the control of the foreigner over many branches of domestic manufacture which have a struggle even under present duties to hold their share of the trade in competition with foreign goods, that the *aggregate* sum collected from importations would probably equal, if it did not exceed, that flowing from a ten per cent. reduction, but five, ten, fifteen, or twenty per cent. reduction, the President's puzzle is again upon him—the veritable devil's ducat of which he cannot get rid—of which at least it is certain he never will get rid upon his plan.

The country may be in favor of reducing its debt at a slower pace than heretofore, which I do not believe. It may wish less money collected from taxation than at present, which I do not believe it is troubling itself much about. It may desire that a greater proportion of foreign manufactures shall be used than at present, which I do most emphatically disbelieve; but one hope it cannot entertain for a moment, and that is, that by following the Presi-

dent's advice and reducing duties upon imports, the aggregate sum received from importations will be lessened and the surplus thereby reduced.

It is true that it has been proposed to place four articles upon the free list which yield from twelve to fifteen millions of dollars per annum. These are called raw materials, but no one has yet been able to define what a raw material is. To the mining company that produces iron ore upon the shores of Lake Superior, and transports it for a thousand miles in its own vessels, and sells at the furnace for seven dollars per ton what was worth a few cents in the mine, iron ore is the finished product. There is not anything raw about it. A hundred and fifty millions of capital are invested, and many thousands of men are employed in the business, and so it is in the mining of coal. It is very certain that Congress will not admit iron ore free of duty, for so overpowering were the facts laid before the last Congressional Committee that investigated the subject, that when a general reduction of duties was made, so far from the duty upon iron ore being reduced with other articles, the duty was actually increased fifty per cent. Spanish labor in the mines, fifty cents per day, and labor in the mines of Lake Superior, two dollars per day, with cost of transport less from Spain to seaboard furnaces than from Lake Superior to furnaces in Ohio and Pennsylvania, settled the question of free ore as it will settle the question of free coal. An effort to abolish all duties upon these so-called raw materials must fail. As long as incidental protection is given to home industries on account of the greater cost of labor here, so long must industries which have been developed by this policy share in this advantage. It would be neither just nor politic to treat them differently from other industries.

If the so-called surplus—which is no surplus, but is only caused by a failure to use our funds to pay our debts—if this surplus be such a nightmare, and it is necessary for the Nation's peace to get rid of it in some other way than for the payment of debt, and if the President is bound to use foreign imports as the means to prevent a surplus, there is only one key for the puzzle, these reductions must be so radical as to paralyze the manufacturing system and bring upon the country a period of misfortune which has not been equaled more than once or twice in its history—or he must raise the duties sufficiently to lessen importa-

tions. He places himself upon record as not in favor of the former action. He is probably still less disposed to adopt the alternative. Yet he cannot affect the surplus through imports except by one course or the other, for nothing is surer than that any moderate reduction of duties will not reduce, but will swell the surplus.

The President's puzzle is not to be thus solved. No, no, Mr. President, people don't stop overflows by lowering the sluices. Those that favor this never want the overflow lessened, and as men have died and worms have eaten them, but not one of them for love, so also many men have wished the duties upon imports reduced, but not one of them for the reason you assign—to reduce the surplus. It was lonely around the camp fire one night in the wild West until one of the company proposed that they should all tell their real names. Matters became lively enough at once. Let those gentlemen masquerading about, disguised as surplus reducers, tell us what they mean when they advocate a policy certain to increase revenues. Give us your *real names*, gentlemen! And you, Mr. Surplus Reduction President, suppose you begin?

ANDREW CARNEGIE.